



CDBG Financial Handbook

Maine Community Development Block Grant Program



www.meocd.org

**Office of Community Development
Department of Economic and Community Development
111 Sewall Street, 3rd Floor
59 State House Station
Augusta, Maine 04333-0059
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WEEKLY DRAWDOWN PROCESSING MEMO

TO: All current CDBG Grantees and Communities Notified of Award
From: Orman Whitcomb, CDBG Program Director
Date: May 7, 2003
RE: Weekly Drawdown Processing

This memo is to notify you of a modification in the drawdown schedule for 2003 and to outline the drawdown schedule for 2004. Please note that there is a major change for the 2003 schedule.

CDBG program draw downs must be received at the OCD no later than 5:00PM on each Friday except those filed electronically, which must be received by 6:00AM on each Monday. Drawdowns not received by these times will **NOT** be processed during that week but held over until the next week.

Drawdowns received and approved on the scheduled due dates will be processed and funds issued by check or wire transfer on the following Monday. In the event of a Monday holiday, funds will be issued on the next regular business day. **Please see the attached calendars.**

Note: *Please remember the 1-page Drawdown Summary Form, indicating accrued and non-accrued expenses, documenting the drawdown request must accompany all drawdowns. Communities must keep all invoices locally. All invoices must be dated, signed, (by the contractor, architect or engineer, if applicable and the program administrator), indicate itemized activities completed including materials and labor provided and the corresponding amounts due, dates for the activities completed and the total amount being billed. **Drawdown requests without this Drawdown Summary Form will not be processed. Faxes will NOT be accepted.***

If you have any questions concerning the weekly drawdown process or schedule, please feel free to call your Development Program Manager or Nellie Goulette at 624-9823.

CDBG FINANCIAL CALENDAR 2003

CDBG FINANICAL CALENDAR 2004

REQUESTING CDBG FUNDS

The Office of Community Development has set up a process for communities to follow when they need to receive part of their CDBG funds. This process, called "drawing down funds", uses standardized forms and has established rules and deadlines. The following describes the preliminary steps that your community must follow to prepare to receive the funds. Subsequent sections will explain all the procedures you need to know to request CDBG funds.

Preliminary steps for your community:

In order to receive CDBG funds, your community must complete some preliminary steps during the Project Development Phase which involves some financial forms.

These forms establish the bank account and address that OCD will use to mail out or EFT grant funds to the community. A vendor ID form may be required to establish your town within the state accounting system and assigns an identification number that is attached to your CDBG grant account.

✓ **Encumbered contract**

To receive any funds from your grant award, your community's contract with OCD must have been approved and the funds "reserved" or encumbered. You will receive a copy of the encumbered contract from OCD when this process is complete.

✓ **Environmental Review Release of Funds (clearance from DECD)**

HUD Regulations prohibit obligating or spending ANY PROJECT FUNDS prior to receiving an environmental clearance date from OCD. Your community cannot enter into a contract with OCD until this date has passed.

✓ **Ledger Books/Accounting System in place**

You must have an accounting system in place so that when the money is received it can be tracked and managed according to good accounting principles as well as in compliance with CDBG regulations.

You must comply with the following requirements of 24 CFR part 85.20 and .42 and CDBG regulations.

- a) Establish internal controls to safeguard cash, inventory and equipment.
- b) Establish a special ledger account for all CDBG monies.
- c) Maintain financial records including:
 - 1) A register of cash receipts and disbursements;
 - 2) Record of all non-cash transactions;
 - 3) General ledger to show the status of each CDBG account;
 - 4) A fixed account ledger, and
 - 5) A record of drawdowns, funds received and balance of funds.
- d) Ensure you maintain financial records and maintain for three years.
- e) Use income generated from grant activities for other eligible activities.
- f) Use program income before drawing additional grant funds to pay for allowable program expenses.

- g) Not request or draw down more funds than needed, except for anticipated administrative funds (up to a total of no more than \$5,000 per drawdown).

CASH BASICS

Communities that receive CDBG grants do not receive the entire grant amount at once. The CDBG Program is a reimbursement system where communities incur costs and then are “paid back” when they submit requests for payment or drawdowns to OCD. The following are suggestions for organizing your financial system at the local level.

Establish cash needs.

Please be sure to plan for your project’s financial needs and make sure to communicate with your DPM about those financial needs and when they will occur.

Establish time frames from invoicing to receipt of check and compare to vendor invoicing due date.

Periodically, OCD publishes a “drawdown schedule” that gives the deadlines for submitting drawdowns to OCD and establishes when checks will be sent out. It is a good idea to share this schedule with your contractors. Then, as they submit invoices to your community, they will have a reasonable expectation of when they will receive payment.

Establish date of submission of drawdown, prepare drawdown and submit to:

Nellie Goulette
Department of Economic and Community Development
59 State House Station
Augusta, ME 04333-0059
E-mail address (for e-drawdowns): ocd.drawdown@maine.gov

THE 5 – DAY, \$5,000 RULE

Any drawdown your community submits must be for an amount equal to invoices received for work completed and the immediate future need for administrative funds. The amount of **anticipated** administration funds requested can not exceed \$5,000 per drawdown. Funds drawn down under the administration line must **only** be expended for administration expenses. In addition, federal regulations require that CDBG funds must not remain in your bank account for longer than 5 business days. If your community cannot meet the 5 day-\$5,000 rule, contact your Development Program Manager by telephone and follow up with correspondence giving the specifics of why the violation occurred, and when the funds will be expended.

INTEREST BEARING ACCOUNTS

The OCD requires that funds drawn from the Community’s Community Development Block Grant (CDBG) program **must be deposited in the Town’s General Fund Account**. OCD also requires that funds must be direct deposited through electronic funds transfer (EFT). If the EFT option is not available at the community’s bank, then DECD can still mail checks to the community’s bank. During the life of the Contract, the community must track interest on CDBG funds deposited in the General Fund Account. Interest in excess of \$100 **must** be returned to the OCD immediately. There is only 1 (one) exception to this requirement. That is for housing rehabilitation activities; once a rehab contract is signed with the homeowner, a reasonable amount of the contract may be requested from the State and deposited in an interest - bearing escrow account.

For all other activities, (e.g., micro-loan, public facilities, economic development, etc.) monies can only be requested from the State as costs are incurred. This means that even though you may sign a contract with a businessperson for a loan, you may not disburse the total of the loan to the client without proof of expenditures. The same restriction applies to disbursing escrow housing rehab. loan

funds to a homeowner. In both instances, the contract with them is a line of credit which requires proof of expenditures to request monies. This is the same practice financial institutions use in granting business or home loans for rehab or expansion.

Grantees can establish revolving loan funds to carry out specific activities. A revolving fund, for this purpose, is a separate fund (with a set of accounts independent of other program accounts) established to carry out specific activities which, in turn, generate payments to the fund for use in carrying out such activities. Payments to the revolving fund are program income and must be substantially disbursed from the revolving fund before additional grant funds are drawn from the State for revolving fund activities.

If you have any questions, please contact the Office of Community Development at 624-7484.

Direct Deposit of CDBG Funds

Grantees may elect to have their funds directly deposited into a specified bank checking account. Please use Page 10 of this section for that purpose.

RFPs and Program Income

Program income cash on hand needs to be reported on each drawdown and you must identify the activity it has been spent on. Cash on hand from program income must be spent prior to requesting additional funds in the activity generating the program income. Your community may request funds in that activity less the cash on hand for revenue needed.

EXAMPLE: Grantee needs \$9,000 for Housing Rehabilitation Residential Loans.
Grantee has \$2,000 in program income designated for Residential Loans.
Grantee reports \$2,000 in program income and requests \$7,000 from DECD.



**AUTHORIZATION AGREEMENT FOR DIRECT DEPOSIT SERVICES
FOR CONTRACTORS/VENDORS**

To: BUREAU OF ACCOUNTS & CONTROL
ATTN. DONNA CROCKETT
14 STATE HOUSE STATION
AUGUSTA, ME. 04333-0014

Phone #207-626-8445 Fax # 207-626-8447

You are hereby authorized to electronically transfer payments to the following:
(Please submit a voided check or deposit slip from your account for verification)

BANK INFORMATION

Name of Financial Institution		Account Number	
Type of Account	Checking	Savings	
Name on Account		Transit/ABA Number	
Financial Institution Address	City	State	Zip Code

For deposit to my/our account and I/we authorize the Agency to initiate credit entries and debit entries (to make corrections) to my/our account at the above named financial institution. Each deposit so made (after any necessary corrections) will be full payment of the amount then due and payable to me/us. I/we agree to notify the Agency's offices immediately upon discovery of any errors resulting from transactions under this authorization and to notify the Agency's offices of any changes that may affect these instructions or the Agency's ability to rely upon them. This authorization may be canceled by me/us at any time by so notifying the agency in writing. In authorizing the above services to be provided to me/us, I/we agree to hold the Agency and the State of Maine harmless from any and all loss, cost, damage or expenses I/we may suffer as a result of errors in deposits, credit entries or debit entries caused by persons who are not employees of the Agency or the State of Maine.

CONTRACTOR/VENDOR INFORMATION

Signature OF Depositor (Benefit Recipient) or Authorized Agent	Date	Social Security # of Benefit Recipient or Firm's Tax ID No.	
Address	City	State	Zip Code
Contact Person: Name:			
Title of Authorized Agent			
Phone:			

(Please print in ink or type all requested information and notify us in writing when there is a change in your company name, address, authorized agent, bank account number, etc.)

NEW VENDOR/VENDOR UPDATE FORM

DRAWDOWN FORM

THE DRAWDOWN FORM INSTRUCTIONS

The Request or Payment form or drawdown is the form you submit to OCD when you want to “draw down” a portion of your grant funds. The drawdown lists expenditures your community has had since the last drawdown submission and categorizes them. The categories and dollars amounts should flow from your records of expenditures.

Completing the Drawdown Forms

FOR ECONOMIC DEVELOPMENT INFRASTRUCTURE, PUBLIC FACILITIES INFRASTRUCTURE, DOWNTOWN REVITALIZATION, MICRO LOAN, URGENT NEED, PUBLIC SERVICE GRANTS
(see *Housing Rehabilitation Handbook* for drawdown forms for that program)

For electronic drawdown forms, this set of instructions indicates those items which are automatically filled in (identified as AUTOMATED).

Section I

Encumbrance # Found on the front page of the contract. (Example: G600241) AUTOMATED

Invoice # The sequencing of invoices (i.e., #1, #2, etc.) AUTOMATED

Date Enter the date you are completing this form.

Grant Year: Enter the grant year of your grant (e.g., 2003). If you have received a 2003 grant from us, please enter 2003 on this line every time you complete a drawdown (**DO NOT CHANGE TO “2004” WHEN THE CALENDAR YEAR CHANGES**). AUTOMATED

Grant Type Please indicate for which type of grant program you are drawing down fund, by placing a check mark before the name of the program, either Public Facilities or Public Infrastructure. AUTOMATED

Section II

Grantee/Program Enter the name of the Grantee. AUTOMATED

Bank Account # Enter the bank account # shown on the Depository Page of your contract. AUTOMATED

Bank Name Enter name of the bank where the funds will be deposited. AUTOMATED

Bank Address Enter the mailing address of the bank where the check or electronic transfer should be directed. AUTOMATED

Section III

Contact Person Enter the name of the person to contact regarding this form. AUTOMATED

Phone # Enter the phone # of the person to contact regarding this form. AUTOMATED

Amount This Request Enter the dollar amount being requested; it should match the amount entered in item V-F. This amount must be in a dollar amount with no cents included. AUTOMATED

Section IV

Activity Listing Enter each line item activity as stated in your contract. Be sure that each item activity is listed for each drawdown completed. AUTOMATED

Total Budget Enter the total budget by activity as stated in your contract. If a contract amendment or modification has been submitted, do not post a revised budget until the amendment or modification has been approved in writing by the State. AUTOMATED

CDBG Grant Expenditures (Cumulative) Enter CDBG monies expended to date by line item activity. This would be the amount of funds previously requested that have been disbursed locally. (Note: Do not include funds requested in the current drawdown, and do not include Town funds to be reimbursed.) AUTOMATED

CDBG Grant Cash on Hand Enter CDBG funds cash on hand.

CDBG Grant Cash In Transit Enter CDBG funds in transit by line item activity.

CDBG Grant Balance Remaining Column A minus Column B minus Column C equals Column D. The amount in Column D shows the CDBG amount remaining to be drawn down before you receive the funds from this drawdown. AUTOMATED

Program Income Expenditures (Cumulative) Enter all program income expended to date by line item activity. The total of Column V-E should equal VI-B.

Amount this Request Enter the monies by line item activity that you are requesting on this drawdown.

Accomplishment Data:

When entering information in this accomplishment data section, please keep in mind that all data in this section should be **cumulative**, and should be for units **completed**.

Number of Units: Enter number of units completed. Units are identified in the contract and are such things as linear feet of sewers or number of facilities or dwelling units for relocation assistance.

Number of People: Enter the number of low/moderate income persons benefitting from expenditures in Column B.

LMI Funds: Enter total CDBG amount expended on LMI persons for each line item. (Please Note: For area-wide LMI activities, 100% of the expenditures should be reported as LMI funds as indicated in the contract.) Do not include funds from amount this request.

Number of Units (S/B): Enter number of slum/blighted units completed. Units are identified in the contract and are such things as linear feet of sewers, number of facilities, etc.

Slum/Blight Funds: Enter total CDBG amount expended for Slum/Blight for each line item. Do not include funds from amount this request.

Section V: Total

Enter the total of monies posted by activity for each column. Please use the following formula: V-B plus V-C must equal grant funds drawn down to date. AUTOMATED

Section VI: Program Income

Cumulative Received Enter the total amount of all program income received to date. Program income monies are to be reported separately from current CDBG funds. For example, interest earned from a housing rehab escrow account is reported in this section and not as Grant Funds Balance Cash on Hand, even though funds may have been transferred into the non-interest bearing account from the escrow account. After program income is disbursed it is reported in Column IV-E.

Cumulative Expended Enter the total of monies posted by activity for each column. Column VI-B must equal V-E.

Program Income Cash on Hand Enter the balance of program income monies not expended. Column VI-A minus VI-B must equal VI-C.

Section VII: Certification

If mailing your drawdown form it must be signed and dated by the person(s) authorized on the signature page of the contract. If your contract with DECD designates that 2 people must sign requests for payment, then those 2 signatures must be on the Drawdown form before it is processed. If sending your drawdown form electronically, it must have the appropriate grant code on the summary form that is sent in with the drawdown form.

REMINDERS

1. Be sure the information is typed or written hard enough to reflect data on all copies (unless using electronic drawdown form). If using computer form, make a copy of that form and mail the original to DECD.

2. If using NCR forms, retain the bottom copy for your files. Please submit the other 3 pages of the packet (unless using electronic drawdown form) by the drawdown deadline at 5 pm on Friday to Nellie Goulette, Department of Economic and Community Development, 59 State House Station, Augusta, ME 04333-0059.

PLEASE NOTE: This Drawdown form is the basic form used by all grant program recipients. Drawdown forms for the Housing Assistance Grant program will differ from all the other grant programs by having a column entitled "Amount in Escrow" which provides an opportunity to indicate the dollar amount of funds in the housing rehab escrow account.

Drawdown Summary Form

This form MUST accompany all drawdowns

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[illegible]

Key	
00	Acquisition of Real Property
00	Public Facilities
00	Senior Centers
00	Neighborhood Facilities
00	Recreational Facilities
00	Parking
00	Water/Sewer Improvements
00	Street Construction
00	Sidewalks
00	Fire Station/Equipment
00	Health Facilities
00	Site Clear/Demolition
00	Relocation Assistance
01	Privately Owned Utilities
01	Rehab Single Unit Residential
01	Rehab Multi Unit Residential
01	Rehabilitation Administration
01	Non-Resident. Historic Preserv.
02	Planning
02	General Administration

Must equal TOTAL of Column G on Drawdown Form.

THE DRAWDOWN SUMMARY FORM INSTRUCTIONS

The Drawdown Summary Form, indicating accrued & non-accrued expenses, is the summary form that must accompany each drawdown form that you submit to OCD. Any drawdown request submitted without the appropriate drawdown summary form attached will not be processed. Communities must keep all invoices locally. The invoices must be dated, signed (by the contractor, architect, or engineer, if applicable, and the program administrator), indicate itemized activities completed including materials and labor provided, and the corresponding amounts due, dates for the activities completed and the total amount being billed.

The Drawdown Summary Form is drawdown specific (not cumulative). You will be changing the original summary form each time to match each successive drawdown for that you do.

Completing the Drawdown Summary Form:

Community Name: Enter the name of the community.

Grant Code: Password for those using e-drawdowns. This is the security protection for electronic users. Appropriate Grant Code Password must be entered to allow for drawdown processing. Paper drawdown users do not enter a grant code.

Drawdown #: Enter the drawdown # as it is entered on the drawdown itself.

Activity # Key Chart: (for informational purposes only): This is your key to the appropriate activity #'s that you will need to enter in the activity # column.

Activity #: Enter the activity # (as referenced in the Activity Key Chart).

Vendor Name: Enter the name of the contractor, architect, engineer, program administrator, etc. involved with the activity #. Complete one line for each vendor name.

Work Completed to June 30: Enter the dollar amount for the work completed to June 30 for the vendor listed.

Work Completed from July 1: Enter the dollar amount for the work completed from July 1 for the vendor listed.

Total: Enter the total dollar amounts for the work completed to June 30 and from July 1 for the vendor listed.

Totals (Column Totals): Enter the totals for the "To June 30" column, the "From July 1" column, and the "Total" column.

As identified by the arrow showing on the Drawdown Summary Form, the Total for the "Totals Column" must equal the TOTAL of Column G (Column H for Housing) on the Drawdown Form.

CONTRACT AMENDMENTS & MODIFICATIONS

Grant recipients are responsible for monitoring their program's progress toward achieving stated goals on or before the contract end date. However, the Office of Community Development recognizes circumstances could arise which may necessitate a contract change. Contract modifications or amendments that are consistent with contract provisions and are justified will be considered for approval.

CONTRACT MODIFICATIONS

A modification request is required for changes within the overall budget of **up to ten percent of any line item**. An example of this might be shifting funds from site preparation to sewer construction of less than 10 percent of the budgeted amount for either line. The change must be recorded on the Contract Modification Form, along with an explanation for the request, and submitted to this office for approval. The Request for Modification Form is on page 19.

CONTRACT AMENDMENTS

An amendment is required for changes in contract end dates, deleting or adding program activities of changes in budget line items of **greater than ten percent**. The Contract Amendment Form is located on page 20. **Contract amendment forms must be accompanied by revised contract tables.**

The following is an outline of the process to follow for contract amendments:

1. Request the amendment as soon as you discover that a contract change will be necessary, but **at least thirty (30) days** prior to the existing contract end date.
2. Provide a written narrative explaining the conditions requiring an amendment and send the form to your Development Program Manager.
3. Your Development Program Manager will review the request for an amendment. Upon approval, please submit one copy of the form with revised contract tables to this office for final review, approval and processing.

Suggestions for a contract modification or amendment may be made by this office after review of the grantee's progress and contract goal requirements. **Contract modifications and amendments must be approved prior to expending funds.** Failure to follow the process outlined above may result in a grant close-out on the original end date. Original activity budgets will remain, and funds not yet requested and/or expended will be disencumbered.

For more information, please contact your Development Program Manager at (207) 624-7484.

**CONTRACT MODIFICATION FORM
MAINE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM**

_____ GRANT

GRANTEE: _____ ENCUMBRANCE #: _____

DATE OF REQUEST: _____

ACTIVITIES		ORIGINAL BUDGET	REVISED BUDGET REQUEST	% CHANGE
No.	Description			
01.	Acquisition of Real Property	\$25,000	\$24,000	4%
THE ABOVE IS FOR DEMONSTRATION PURPOSES ONLY				
<u>TOTAL</u>				

Explanation of Request:

Authorized Signature: _____ Date: _____

REQUEST FOR AMENDMENT FORM
DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT
OFFICE OF COMMUNITY DEVELOPMENT
COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM

REQUEST FOR AMENDMENT

DATE: _____

CONTRACT YEAR: _____

TYPE OF GRANT: _____

NEW CONTRACT END DATE: _____

The **Town/City of** _____ requests an amendment to contract # _____

DESCRIPTION OF CHANGES:

IS AN UPDATE TO THE ENVIRONMENTAL REVIEW (ERR) REQUIRED? __YES __NO

If yes, attach update information or a schedule for completion.

ATTACHMENTS (include all forms to be revised in the contract):

Signature of CEO: _____

Date: _____

(Office of Community Development, Development Program Manager)

Date: _____

Orman Whitcomb, Director
Office of Community Development

Date: _____

CLOSE-OUT PROCEDURES

Introduction

The close-out process encompasses a series of activities to verify that CDBG funds have been properly expended and that the community has completed all elements of its program in a timely and acceptable manner. **The timeliness and content of information presented in the close-out report is a key factor used by the State to determine whether future CDBG applications will be accepted.** It is very important that your community pay careful attention to close-out procedures as the final step in the CDBG management process.

- The State will advise your community to begin the close-out process when the State determines that the following criteria have been met or will be met shortly:
- All costs to be paid with program funds have been incurred, paid and invoiced/drawdown with the exception of close-out costs such as the cost of the final audit.
- The grantee has fulfilled all of its responsibilities under the agreement, inclusive of benefits, leverage, etc. The State must determine that there is no further State interest in keeping the grant agreement open. The State will consult with the grantee to determine that there are no impediments to close-out prior to the initiation of close-out.

To reiterate, you should remember that prompt close-out of your community's grant is REQUIRED since the State uses this as a key indicator of performance. Delays in completing close-out can result in the denial or reduction of future requests for CDBG funding.

An important point to assess near the completion of the contract, is availability of staff to assist in close-out and audit of the grant. Most municipalities release staff at the end of the contract, resulting in a lack of contact for questions and assistance in close-out. If such a problem could exist, please call the Office of Community Development and speak with your Development Program Manager.

Close-Out Process

The following packets of information are part of the close-out process.

1. The Close-Out Packet itself
2. The Disclosure & Update Report
3. The Benefit Data Tables.

When you are ready to close-out our CDBG grant, these packets of information must be submitted to OCD. The Disclosure and Update Report is found in this section just following the close-out packet. The Disclosure and Update Report should be completed as an update to the D and UR submitted during the Project Development phase. The Disclosure and Update Report and the Update instructions are located at the end of this section.

The Benefit Data Tables should be submitted by HA, ML, EDI, BA, DF, & RAF (when the benefit is job creation). The Benefit Data Tables can be found in the Project Development/Phase II Handbook.

Note: Closeouts and related documents can be filed electronically.

CLOSE-OUT FORM INSTRUCTIONS

Enclosure 1: Final Financial/Program Status Report

Performance Chart

For all items below, do not include obligated funds in this section. To be considered expended, the funds must be disbursed.

A. Amounts: Enter total dollars expended for this grant.

Low/Moderate Income Statistics

B. Accomplishments: Enter number of units completed based on the unit identifiers listed in the identifiers column.

C. # LMI Persons Benefiting: Enter the number of low/moderate income persons benefiting from the expenditures in column A.

D. % LMI: Enter the LMI % as it appears on your contract with OCD.

E. LMI Funds: Enter total CDBG amount expended on LMI persons for each line item. (Please note: For area-wide LMI activities, 100% of the expenditures should be reported as LMI funds as indicated in the contract.)

Slum/Blight Statistics

F. Accomplishments: Enter units completed based on the unit identifiers listed in the identifiers column.

G. % S/B: Enter the slum/blight funds % as it appears on your contract with OCD.

H. S/B Funds: Enter total CDBG amount expended for Slum/Blight for each line item. (Please note: For area-wide slum/blight activities, 100% of the expenditures should be reported as Slum/Blight funds as indicated in the contract.)

Totals

I. Total: Enter the total of activities I through 21A.

J. Total LMI Funds: Enter the total of activities, except for 20 and 21A, for column E.

K. Total S/B Funds: Enter the total of activities, except for 20 and 21A, for column H.

L. LMI Funds: Enter the amount from Item J. The % LMI for the total project is then figured according to the following formula:

$$\frac{\text{Item L}}{\text{Item N}} \times 100 = \text{ ______ } \% \text{ LMI}$$

M. S/B Funds: Enter the amount from Item K.

The % S/B for the total project is then figured according to the following formula:

$$\frac{\text{Item M}}{\text{Item N}} \times 100 = \text{ ______ } \% \text{ S/B}$$

N. Total Activity Funds: Enter the amount of total activity funds according to the following formula:

(Item I, Column A) minus (Total of Line Activities 20 and 21A)

Enclosure 2: Program Income Final Financial/Program Report

Program Income Performance Chart

For all items below, do not include obligated funds in this section. To be considered expended, the funds must be disbursed.

A. Amounts: Enter the total program income dollars expended for this grant in each activity.

Low/Moderate Income Statistics

B. Accomplishments: Enter number of units completed based on the unit identifiers listed in the identifiers column.

C. # Persons Benefiting: Enter the number of low/moderate income persons benefiting from the program income expenditures in column A.

D. % LMI: Enter the LMI % of the contract activity where the Program Income was expended.

E. LMI Funds: Enter the total program income dollars expended on LMI persons for each line item. (Please note: For area-wide LMI activities, 100% of the expenditures should be reported as LMI funds as indicated in the contract.)

Slum/Blight Statistics

F. Accomplishments: Enter units completed and jobs created, if any, based on the unit identifiers listed in the identifiers column.

G. % S/B: Enter the Slum/Blight % of the contract activity where the program income was expended.

H. S/B Funds: Enter the total program income dollars expended for Slum/Blight for each line item. (Please note: For area-wide slum/blight activities, 100% of the expenditures should be reported as Slum/Blight funds as indicated in the contract.)

Totals

I. Total: Enter the total of activities I through 21A.

J. Total LMI Funds: Enter the total of activities, except 20 and 21A, for column E.

K. Total S/B Funds: Enter the total of activities, except 20 and 21A, for column H.

L. Total Program Income Received: Enter the total of all program income received for this grant.

M. Program Income Cash on Hand: Enter the amount of program income cash on hand.

N. LMI Funds: Enter the amount from Item J. The % LMI for the total project is then figured according to the following formula:

$$\frac{\text{Item N}}{\text{Item P}} \times 100 = \text{ ______ } \% \text{ LMI}$$

O. S/B Funds: Enter the amount from Item K. The % S/B for the total project is then figured according to the following formula:

$$\frac{\text{Item O}}{\text{Item P}} \times 100 = \text{ ______ } \% \text{ S/B}$$

P. Total Activity Funds: Enter the amount of total activity funds according to the following formula:

(Item I, Column A) minus (total of Line Activities 20 and 21A)

Enclosure 3: Matching Funds Performance Chart

A. Designated Use: Enter the activity code # (as indicated on the **PERFORMANCE CHART**) for the activity where the funds were expended.

B. Source of Match Funds: State the specific name of the funding source.

C. Contract Amount: Enter the amount of funds expected from the source specified in the preceding column. This should be the amount as specified in your contract with OCD, unless there is a change in the amount of match during the course of your grant. If this occurs, please notify your DPM, and describe the circumstances of the change in the narrative section of this chart.

D. Amount Expended: Enter the amount expended by the funding source specified in column B.

E. Balance: Column C (Contract Amount) minus Column D (Amount Expended) equals Balance. Enter that amount here.

F. Matching Funds Narratives: Please provide a concise and complete summary of the status of matching funds for each funding source.

Enclosure 4: Activity Narratives

For each activity in Section I, provide a concise but complete narrative report of the final status of each activity. Include accomplishments vs. expenditures, resulting benefits, and all other pertinent information.

Enclosure 5: Closeout Transmittal Letter

Closeout Certification

Release

This section of the closeout Transmittal Letter gives legal release for Grantee and State in liability for the contract after closeout.

IMPORTANT: Indicate if a refund check is enclosed and a statement for the reason for the refund.

Inventory Certification

The Grantee should check one of the sections to indicate if property has been acquired with said CDBG contract funds. If property has been acquired with CDBG contract funds, then Enclosure 6, Grantee's Property/Inventory Register, must be completed. This includes both real and personal property on hand at the end date of the contract.

Enclosure 6: Grantee's Property Inventory/Register

If property has been acquired with CDBG funds, the Grantee must complete Enclosure 6, Grantee's Property/Inventory Register. Do not include consumables on the inventory. Do include any real property and non-expendable personal property. Report only real property on hand at the end date of the contract. Report all non-expendable personal property acquired during the contract period and any property purchased with CDBG funds from previous State CDBG contracts if such property is still on hand. Reference the Property Management Section of this handbook for definitions of types of property.

Signature by Authorized Official:

- 1) Please have the Chief Executive Officer sign on the signature line, and then type in his or her name on the TYPED NAME & TITLE line.
- 2) Please have the Chief Executive Officer's signature witnessed.

Note: Electronic submissions must include the password code (Grant Code) that was assigned to your grant during the drawdown process.

CDBG Closeout Checklist

Each grantee is responsible for the orderly and timely phase-out of sub-contracts it may have in connection with the grant and for the timely settlement of any financial claims of sub-contractors. All sub-contractors should be advised to prepare their claims or invoices and submit them directly to the grantee. Charges should be itemized in the same detail and manner as required of you by the State since these sub-contract costs will be included in your final financial reports submitted to the State. It is suggested that you require all sub-contractors to submit close-out data, final reports, and final claims in time for you to comply with the 30-calendar day limitation for completion of your close-out package.

The following are suggested items that might assist you in preparing to closeout your contract.

1. Arrange for the close-out of any sub-contracts you may have in connection with your contract with the State.

2. CDBG funds held beyond initial closeout

In order for communities to complete a timely close-out of grants, a community is allowed to retain up to \$750 in CDBG funds to pay for final single audit costs. Funds in the bank account which exceed the final single audit costs under this grant shall be withdrawn and refunded to the State. This refund shall be paid by check made payable to the Treasurer State of Maine and shall be sent with the close-out packet.

Please submit a copy of the single audit invoice for costs incurred regarding the CDBG grant and return any balance (if actual cost is less than \$750) to the OCD, by check payable to Treasurer, State of Maine.

3. Bonds

Where required by this Contract, cancel or adjust any bonds required.

Upon close-out of this contract, you shall contact the corporate surety holding the applicable contract bond to insure that the bond is cancelled, or if the contract is covered by a rider to a bond, that the proper adjustment is made. If premium refunds are due, you shall request that they be identified by number and returned to you. If the bond was paid with CDBG funds, any refunds received shall be

included in the aggregate check covering refunds transmitted with the close-out package to the State. The refund shall be identified by amount and source in an accompanying statement.

4. If funds are due to the State, make payment to the Treasurer State of Maine.

Grantee: _____
Contract Year: _____

STATE OF MAINE

**COMMUNITY DEVELOPMENT PUBLIC FACILITIES
INFRASTRUCTURE GRANT**

CLOSEOUT PACKAGE

Date Received: _____

Enclosure 1

Enclosure 2

Enclosure 3

Enclosure 4

IV. ACTIVITY NARRATIVES

Activity #

Activity #

Activity #

Enclosure 4 (con't)

IV. ACTIVITY NARRATIVES (cont'd)

Activity #

Activity #

Activity #

Closeout Certification

Release

Pursuant to the terms of contract number _____ and in consideration of the sum of:(\$)_____ which has been paid under the said contract to
Total of Amounts Paid

Grantee Name & Grantee Address

or its assignees, Grantee does remise, release and discharge the State of Maine, and its officers, agents and employees of and from all liabilities, obligations, claims, causes of action, and demands whatsoever under or arising from the said contract or any of the transactions contemplated thereby.

No costs have been incurred after the expiration date of the above contract except as described in the close-out checklist (2). All necessary documents and procedures have been followed thereby finalizing the above mentioned contract. The Grantee does hereby certify that all costs have been paid which were incurred in connection with project operations and that there are not undischarged liabilities or claims which remain, other than CDBG related costs associated with the final audit. The grantee also certifies that all laws have been complied with as required in the contract with the State of Maine.

A refund check is/is not enclosed in the amount of \$_____ for the following reason:

Inventory Certification

___ The Grantee certifies that no property, real or personal, has been purchased with monies in this contract.

___ The Grantee certifies that the attached schedule (Enclosure 6) is complete and correctly lists and describes all items of materials and equipment furnished to the Grantee or for which the Grantee has been or will be reimbursed by the State for use in the performance of said contract with the State of Maine, which as of this date have not been consumed in performance of this contract; and that the grantee will immediately notify the State of any change affecting the inventory schedule at any time prior to final disposition of the inventory.

In Witness thereof, this agreement has been executed this _____ day of _____, 20____.

WITNESS

AUTHORIZED OFFICIAL

Signature/Typed Name

Signature/Typed Name and Title

DISCLOSURE AND UPDATE REPORT INSTRUCTIONS

As you implement your CDBG project, you will need to produce updated disclosure reports for each CDBG program that meets one or more of the threshold criteria on your original report. Your Project Development Disclosure Report must be updated because selection of contractors and sources/uses of other funding sources were not finalized at that time. Also, you will need to submit update reports to OCD as changes occur during the implementation of the project.

Using the original disclosure report that was completed during the Project Development process, update the report to contain all current information in the parts listed below.

PART I APPLICANT INFORMATION (Check line for Update Report)

Complete these sections according to the instructions for completing the disclosure report. It is probable that the information in these sections will not have changed from the Project Development submission. Enter any changes that have occurred.

PART II THRESHOLD DETERMINATIONS

This information should be the same as the initial report and since you have already met the threshold, skip these sections.

PART III OTHER GOVERNMENT FUNDING

Using the instructions for completing this section of the disclosure report, enter all new information in these sections. This should include all new funding and any increase of 10% or more to a source of funding that was disclosed in the original report.

PART IV INTERESTED PARTIES

Using the directions for completing this section of the disclosure report, list all new developers, contractors, and consultants involved in the project and list all new parties with a financial interest that exceeds \$50,000 or 10% of the CDBG assistance, whichever is lower. This would include an interested party with a financial interest that has increased between the Project Development process and the time of the report and now meets the \$50,000/10% criteria for disclosure.

PART V REPORT ON EXPECTED SOURCES AND USES OF FUNDS

Using the directions for completing this section of the disclosure report, list all new sources and uses of funds, and all changes in sources and uses from the disclosure report that are 10% or greater.

Have your community's Chief Executive Officer carefully read, then sign and date all necessary sections of the update report, including the final certification.

**DISCLOSURE AND UPDATE REPORT
MAINE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM**

Part 1: APPLICANT INFORMATION Initial Report ____ Update Report ____

1. Applicant Name, Address and Phone Number

2. Project to be Funded (Project Name and Location by Street Address)

3. Funding Received (by Program)

4. HUD Program

5. Total Program Funding

CDBG

PART II THRESHOLD DETERMINATION

1. Are you requesting CDBG funding for a specific project or activity, as provided by 24 CFR Part 12, Subpart C, and have received, or can reasonably expect to receive, an aggregate amount of all forms of covered HUD funds through federal, state and local government sources, that will exceed \$200,000 during the Federal Fiscal Year (October 1 through September 30) in which the application is submitted?

Yes____ No ____

If **Yes**, you must complete the remainder of this report. If **No**, you must sign the certification below and answer the next question.

I hereby certify that this information is true.

Authorized Signature_____ **Date**_____

2. Does this application seek to assist any residential housing property, containing five or more dwellings units that will also receive other federal state, or local government funding?

Yes____ No____

If **Yes**, you must complete the remainder of this report. If **No**, you must sign this certification.

I hereby certify that this information true.

Authorized Signature_____ **Date**_____

If your answers to both questions are no, you do not need to complete Parts III - V, but you must sign the final certification.

PART III: OTHER GOVERNMENT FUNDING (FEDERAL, STATE, AND LOCAL)

Source of Government Funding (Name and Address)	Program	Type of Funding	Amount of Funding

PART IV: INTERESTED PARTIES (INDIVIDUALS AND ENTITIES)

Alphabetical list of all parties with reportable financial interest in the project or activity. (for individuals give the last name first)	Social Security Number or Employee ID Number (optional)	Type of Participation in Project/Activity	Financial Interest in Project/Activity (\$ and %)

If there are no parties with a reportable financial interest, you must certify this information is true.

I hereby certify that this information is true.

Authorized Signature

Date

PART V: REPORT ON EXPECTED SOURCES AND USES OF FUNDS

Source

Use

Certification

Warning: If you knowingly make a false statement on this form, you may be subject to civil or criminal penalties under Section 1001 of Title 18 of the United States Code. In addition, any person who knowingly and materially violates any required disclosure of information, including intentional nondisclosure, is subject to civil money penalty not to exceed \$10,000 for each violation.

I certify that this information is true and complete.

Authorized Signature

Date

Privacy Act Statement. Except for Social Security Numbers (SSNs) and Employer Identification Numbers (EINs), the Department of Housing and Urban Development (HUD) is authorized to collect all the information required by this form under Section 102 of the Department of Housing and Urban Development Reform Act of 1989, 42 U.S.C. 3531. Disclosure of SSNs and EINs is optional. The information you provide will enable HUD and the Office of Community Development (OCD) to carry out their responsibilities under Sections 102(b), (c), and (d) of the Department of Housing and Urban Development Reform Act of 1989, Pub. L. 101-235, approved December 15, 1989. These provisions will help ensure greater accountability and integrity in the provision of certain types of funding administered by OCD for HUD. They will also help ensure that HUD funding for a specific housing project under Section 102 (d) is not more than is necessary to make the project feasible after taking account of other government assistance. OCD and/or HUD will make available to the public all applicant disclosure reports for five years. Update reports will be made available along with the disclosure reports, but in no case for a period generally less than three years. All reports, both initial reports and update reports, will be made available in accordance with the Freedom of Information Act (5 U.S.C. §552) and HUD's implementing regulations at 24 CFR Part 15. **Failure to provide any required information may result in sanctions and penalties, including imposition of the administrative and civil money penalties specified under 24 CFR §1234.**

INTRODUCTION

Subsection 85.31 and 85.32 of 24 CFR Part 85 (The Common Rule) provides the basic standards by which local government property management procedures will be evaluated. This section contains key definitions and a series of procedures that set forth the steps grantees should take to assure compliance with federal regulations. CDBG grantees should implement these procedures to the extent that their own procedures do not fulfill the requirements described below.

The issues addressed in this section are principally germane to purchased property. Grantees should also consider the relative advantages of renting or leasing property, particularly when the expected life of the property extends beyond the term of the program.

The definitions, regulations, and procedures described below must be applied throughout the CDBG program.

TYPES OF PROPERTY

A community will typically purchase some property during the conduct of the CDBG program. This section discusses the various categories of property which may be purchased with CDBG funds.

Property is either real or personal. Real property means land, including land improvements, structures and appurtenances; it does not include movable machinery and equipment.

Personal property includes all property that is not real property. It may be tangible, such as desks, chairs, typewriters, lumber, tools, and drainage pipes, or intangible. Property having no physical existence is considered intangible. Patents, inventions, and copyrights are examples of intangible property.

Personal property is first classified as non-expendable or expendable. Non-expendable personal property is defined as all property other than land and improvements having a useful life of more than one year and an acquisition cost of \$150 or more per unit, such as electric typewriters. The acquisition cost of purchased, non-expendable personal property is the net invoice unit price of the property plus the cost of modifications, attachments, accessories, or auxiliary apparatus necessary to make the property useful to the community development effort. Other costs such as installation, transportation, taxes, duty, or in-transit insurance shall be treated in accordance with your regular accounting practices. Expendable personal property refers to all tangible personal property other than non-expendable. An example of expendable personal property is office supplies (e.g., paper, pens, etc.).

In addition to the categories of real and personal property, you should be familiar with the term "excess property". This category includes property under the control of a federal agency which has been designated as not necessary by the agency. This property can then be made available to other jurisdictions for valid public purposes. It may be real or personal property. An example of excess property is land taken over by CDBG from another agency and converted to a park.

Property Ownership

Federal and State regulations govern the ownership of property purchased in whole or in part with CDBG funds. This section discusses these regulations for real property and federally owned non-expendable personal property. You and other city officials, such as your legal counsel, should become familiar with these regulations.

Real Property

The title to real property which you acquire in whole or in part with CDBG funds shall vest with the city subject to the continuing use of the real property for the authorized purpose. If you determine that the real property is no longer needed for the authorized purpose, you may either keep the property for use in other community development projects approved by the State, or return the property to the State. If and when disposition of real property occurs, the proceeds should be treated as program income or miscellaneous local revenue, based on the following procedure on proceeds use. Use of the proceeds shall depend upon whether there is an active small cities grant at the time of disposition (proceeds are treated as program income) or no such grant is active (proceeds are treated as miscellaneous revenue).

Federally Owned Non-expendable Personal Property

If you acquire non-expendable tangible personal property with CDBG funds, title shall vest with your city subject to two primary sets of conditions that restrict your right to transfer title and the uses to which the property is put. These two conditions are addressed in the following two sections.

Right of the State of Maine to Transfer Title

The State of Maine may reserve the right to transfer title from your community to eligible federal agencies at the conclusion of the program. This may be done when the non-expendable personal property has a unit acquisition cost of \$500 or more. If such a reservation is made, it shall be subject to the following standards:

- Property subject to the reservation shall have been identified in the grant or designated in a written communication from the State.
- The State agency must issue disposition instructions within 120 calendar days after the end of the federal support of the project for which the property was acquired. If the State fails to do so, you may continue to use the property in the program for which it was acquired as long as needed. When no longer needed for the original community development program, you may use the property in connection with your other federally sponsored activities in the following order of priority:
 - activities sponsored by the State; and
 - activities sponsored by other federal agencies.

When the property is no longer needed, it may be used for other activities in accordance with the following standards:

- You may use non-expendable property with an acquisition cost of less than \$500 for other activities without reimbursement to the Federal Government or sell it on the open market.
- You may retain non-expendable personal property with a unit acquisition cost of \$500 or more for other uses or sell the non-expendable personal property provided that your community receives approval from the State and compensation is made to the State. The amount of compensation shall be computed by applying the percentage of State CDBG participation in the cost of the original purchase to the current fair market value of the property.* For example, if the State CDBG participation was 50 percent in the program and the fair market value of the equipment at the time of disposition is \$2,000, then your community must reimburse DECD \$1,000. If you have no need for the property and yet it continues to be useful, then you should request disposition instructions from the State. The State will send each grantee a Disposition Policy for non-expendable property. Furthermore, the State retains the right to transfer property to another grantee after program closeout. The State shall give the grantee thirty days notice prior to the transfer of the property.

** Fair market value may be obtained by acquiring at least 3 estimates of the value of the item from vendors by use of an informal report. Verbal quotes documented. All values averaged to arrive at fair market value.*

Allowable Uses

During the period that you hold the non-expendable personal property for use on the program for which it was acquired, you may make the property available to be used in other federal or State programs of the city as long as such sharing is reasonable and does not hinder the primary use of the property for community development. If use of the property for non-CDBG purposes exceeds 25%, a proportionate share of the cost of the property shall be derived from non-CDBG sources. Notification of such circumstances should be negotiated with the State.

Property Management Procedures

Federal and State regulations require that you maintain effective control over all property that you acquire in whole or in part with CDBG funds. In addition, you are required to assure that it is used solely for authorized purposes. This section discusses procedures that will help you comply with these requirements.

Property Register

The maintenance of a property register is an integral part of effective control over and accountability for all CDBG-acquired property. A sample property register follows this section. All categories of property may be recorded on a single register, though separate registers should be kept for each program if you administer more than one grant. When such property is purchased with CDBG funds, you should enter the applicable data on the register using the procedures described later in this section. You may wish to tailor the sample property register to provide additional information. For example, in the case of real property, you may want to record the previous owner of a purchased parcel of land.

Control

All purchased property must be adequately controlled and safeguarded. For example, real property, such as buildings, should be adequately equipped with security devices. Non-expendable property such as desks and typewriters should be reasonably protected from possible theft. Intangible property, such as a patent or a copyright should be adequately safeguarded by making sure that all appropriate legal filings have been completed.

Expendable property should be under the control of an authorized person who is responsible for receiving and issuing such materials. Certain expendable properties (e.g., lumber and drainage pipes) used in CDBG housing rehabilitation projects or street improvements should be controlled through a perpetual inventory system. This system should include:

- adequate records of the receipt of goods, issuance of goods and balance of items on hand;
- documentation of the person who authorized the issuance of goods;
- documentation of the location, such as a house or project, to which the goods were delivered; and
- documentation of the individual who received the goods.

Other expendable personal property such as office supplies do not need to be controlled through a perpetual inventory system. However, these items must be adequately safeguarded.

All purchased property of significant value, real or personal, should be covered by a reasonable insurance policy. Most grantees can fulfill this requirement by assuring said property is included on the town's blanket insurance policy.

You should meet with your finance director to obtain assistance in establishing a perpetual inventory system. The Property Register provides the basic framework for a perpetual inventory system.

PROPERTY INVENTORY REGISTER

PROPERTY DISPOSITION POLICY

Maine CDBG Program

Grantee:

Grant Yr:

The following items have been identified as non-expendable personal property purchased with CDBG funds as confirmed in your closeout dated _____. The left hand column identifies the number of the policy statement which relates to our interest in said property.

Policy Statement #	Property Identification	% Interest to the State
-----------------------	-------------------------	----------------------------

(CHOOSE ONE:)

1. Item's original unit acquisition cost was below \$500. Grantee may use the property for other activities without reimbursement to the State Government or sell the property and retain the proceeds.
2. Item's original unit acquisition cost was above \$500. Property is to be transferred to the State as specified.
3. Item's original unit acquisition cost was above \$500. The grantee may retain the property for other uses provided that compensation is made to the original Federal agency or its successor. The amount of compensation shall be computed by applying the percentage of Federal participation in the cost of the original project or program to the current fair market value of the property. Reference CDBG Administrator's Guide Financial Handbook for definition of fair market value.
4. Item's original unit acquisition cost was above \$500. Grantee is instructed to sell the property and reimburse the State (DECD) an amount computed by applying the sales proceeds to the percentage of CDBG participation in the cost of the original project or program. However, the grantee shall be permitted to deduct and retain from the CDBG share \$100 or ten percent of the proceeds, whichever is greater, for the grantee's selling and handling expenses.
5. Other (specified below):

Failure of the State of Maine to issue this policy within 120 days after the end date of your contract results in the State's loss of disposition rights.

Please sign and return for our signature. A finalized copy will be forwarded to you.

Nellie Goulette
Program Financial Specialist

CD Grantee Authorized Signature

Roles and Conduct of CDBG Audit

Municipality Role

When your jurisdiction accepts funds under the CDBG program, it assumes the responsibility of carrying out the program efficiently and effectively. This includes organizing and maintaining proper policies and procedures for program administration, budgeting, records and filing, accounting, cash management and invoicing, procurement, program monitoring, property management, and close-out. It also includes the requirement that your CDBG program be audited. This section discusses the process of selecting an auditor, what the auditor does as he or she performs an audit, what you should do to prepare for the audit, communications with the auditor, and the audit report.

Selecting an Auditor

Procurement of audit services is subject to the provisions of Subsection 85.36 of 24 CFR Part 85, as supplemented by the State of Maine. In this regard, an independent auditor should be selected through competitive negotiation. This reduces the cost of the services while allowing all qualified accountants to compete. There must be a Request for Proposal process and formal contract which meets all standards as set in 24 CFR Part 85. Specific information concerning the RFP process (steps of RFP process, sample audit advertisement, instructions for submitting bid and a sample form on which to submit the bid) can be obtained by calling the CDBG program at 624-7484.

One of the best criteria for selecting an auditor is the degree to which the auditor is familiar with CDBG, federal regulations, the Single Audit Act Amendments of 1996, and the Revised OMB Circular A-133 "Audits of States, Local Governments, and Non-Profit Organizations". Specific references should be requested and then checked to ensure the auditor has a record of performing professional, complete, and timely audits within budget.

The Audit Process

There are both compliance and financial statement components when a CDBG program is audited. The compliance audit entails performing tests of compliance with certain provisions of laws, regulations, contracts and grants per Government Auditing Standards (commonly called the Yellowbook requirements). Additionally, for entities that expend in excess of \$300,000 of federal financial assistance, a OMB circular A-133 compliance audit must be completed. A OMB circular A-133 compliance audit involves performing tests of compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs, as well as testing and reporting on internal control over compliance.

Major federal programs are determined by the auditor through a risk-based approach. This risk-based approach includes consideration of: current and prior audit experience, oversight by Federal agencies and pass-through entities, and inherent risk of the Federal program. If a CDBG program is deemed a major program, the auditor will consider the following when testing for compliance:

- Activities that may or may not be funded under a program - all activities undertaken must meet one of three national objectives of the CDBG program, i.e., benefit low- and moderate-income persons, eliminate slums or blight, or meet community development needs having a particular urgency
- Cost accounting principles that must be applied
- Procedures to minimize the time between receiving and spending of funds
- Compliance with the Davis-Bacon Act related to wages paid to laborers and mechanics
- Standards for the use and disposition of assets acquired with federal funds
- Requirements for contributions of resources by the recipient of federal funds
- Incurring of funded costs during the funding period
- Restrictions on contracting with parties disqualified from participation

- Recording and use of income generated from a federal program
- Equitable treatment of displaced parties
- Reporting using standard forms
- Monitoring the activities of subrecipients
- Special provisions

The auditor will also perform a financial statement audit. He or she will analyze the degree to which your municipality has followed accounting principles generally accepted in the United States (GAAP) and will express an opinion attesting to the fairness of your financial statements taken as a whole. In forming such an opinion, the auditor will use either tests of controls or substantive tests. Tests of controls assumes control risk (the risk that misstatements may not be prevented or detected by an entity's internal controls) is set below the maximum and includes the following procedures to ensure such an assertion:

- Reperformance – repeating procedures performed by employees
- Inspection – reviewing documentary evidence
- Inquiry – asking questions of appropriate personell
- Observation – watching employees as they perform tasks

A well designed system of internal controls achieves the following objectives: accurate and reliable financial statements, safeguarding of assets, adherence with applicable laws and regulaions, and promotion of effective and efficient operations.

Substantive testing invloves gathering sufficient competent evidential matter as a basis for an opinion on the financial statements. Evidence consists of underlying accounting data and corroborating information that will either corroborate or contradict management's assertions, as they relate to the financial statements. In particular, substantive tests include the following:

- Inquiries of management regarding matters of concern
- Confirmation from third parties of information incorporated in management's assertions
- Comparison of information incorporated in management's assertions to other related information
- Observation of assets or procedures
- Recalculation of information developed by the organization
- Examination of documents supporting management's assertions
- Analytical procedures

Prior to the arrival of the auditor, you should assemble CDBG documentation at the location where the auditor will be working to assure easy access to records. The documents you should assemble are:

- financial reports issued during the period;
- charters, by-laws, City Council resolutions, minutes of meetings of the City Council and bank account authorizations;
- audit reports issued within the past two years including those prepared by internal and external auditors;
- an executed copy of the CDBG grant agreement;
- the approved CDBG grant budget;
- copies of program instructions, HUD regulations, State Policies, and 24 CFR Part 85;
- all major contracts, such as leases, rehabilitation, construction, employment agreements, and major purchase commitments entered into by the organization;
- the cost allocation plan applicable to state and local governments and relevant negotiated indirect cost proposals and agreements (including indirect cost rates, if applicable); and

- source documents, books of original and final entry, and worksheets.

After this information has been assembled, you should conduct several pre-audit verifications by tracing back total amounts on CDBG forms to the source documents. This is one of the major elements of the audit. Your ability to support your reported figures with project records will lead to a smooth, easily accomplished audit. In addition to locating your auditor in a good working environment near program records, access to officials is important. It is best to make key managers aware of the days the auditor will be on site so they can make themselves available for any questions the auditor may have.

As preparation for the conduct of the audit, you may want to personally review and make sure your auditor is familiar with the (1) The Single Audit Act Amendments of 1996, (2) Revised Office of Management and Budget (OMB) Circular A-133, and (3) Government Auditing Standards (Yellow Book); and (4) Compliance Supplement for Single Audits of State and Local Governments issued by OMB. Your auditor should also review pertinent sections of the generally accepted auditing standards of the American Institute of Certified Public Accountants (AICPA) Industry Guide, and the Department of Economic and Community Development Financial Handbook.

During the conduct of the audit, the auditor may discover what appear to be problems but which in reality are not problems at all. To clarify such matters, it is recommended that your municipality require an exit interview to assure that the auditor has not misinterpreted a particular requirement or overlooked certain information. If you can resolve the matter at the exit interview, then it will in most cases not appear in the auditor's report.

The audit report will contain the auditor's findings in the summary of auditors results and will have certain common characteristics. .

The auditor will report the following as audit findings:

- Reportable conditions in internal control over major programs. Reportable conditions involve matters coming to the auditor's attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that could adversely affect the municipality's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements. The auditor shall also identify reportable conditions, which are individually or cumulatively material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.
- Material noncompliance with the provisions of laws, regulations, contracts, or grant agreements related to a major program.
- Known questioned costs which are greater than \$10,000 for a type of compliance requirement for a major program.
- Known questioned costs which are greater than \$10,000 for a Federal program which is not audited as a major program.
- The circumstances concerning why the auditor's report on compliance for major programs is other than an unqualified opinion, unless such circumstances are otherwise reported as audit findings in the schedule of findings and questioned costs for Federal awards.
- Known fraud affecting a Federal award, unless such fraud is otherwise reported as an audit finding in the schedule of findings and questioned costs for Federal awards.

- Instances where the results of audit follow-up procedures disclosed that the summary schedule of prior audit findings prepared by the auditee materially misrepresents the status of any prior audit finding.

The municipality is responsible for follow-up and corrective action on all audit findings . As part of this responsibility, the auditee shall prepare a summary schedule of prior audit findings. The auditee shall also prepare a corrective action for current year findings. The summary schedule of prior year findings and the corrective action plan shall include the reference numbers the auditor assigns to audit findings. If the community has actively discussed the finding with the auditor as the audit progresses, then the response of the community concerning the discussion and the recommended corrective actions can be incorporated into the text of the findings.

Upon completion of the audit report, the auditor will distribute copies to your community and you or your auditor should provide copies to the OMB Clearinghouse (with form SF-SAC), and the State of Maine Department of Economic and Community Development (the pass through entity).

The Single Audit

The following is the State of Maine's procedural policy for grantees in reference to the Single Audit Act Amendments of 1996 and OMB Circular A-133. Grantees must adhere to all three documents: the State of Maine Financial Handbook, the Single Audit Act Amendments of 1996, and OMB Circular A-133.

The Single Audit Amendments of 1996 sets the laws governing all audits of governmental monies. OMB Circular A-133 sets the rules and regulations for implementation of the law. The State of Maine Financial Handbook sets the procedural policy for CDBG grantees in implementing the Act and Circular.

A. Background:

On October 4, 1984, the U.S. Congress passed the Single Audit Act of 1984. The intent of the Act was to establish uniform audit requirements for State and local governments receiving federal financial assistance. Traditionally, such assistance had been audited through separate reviews of individual programs. Congressional research showed the grant-by-grant audit approach to be an inefficient use of audit resources and an ineffective means of assuring accountability, in use of federal monies. Thus they passed a law which they felt would replace many overlapping, inconsistent and duplicative federal requirements by a uniform organization-wide audit requirement for federal grant recipients.

On November 5, 1996, the U.S. Congress passed the Single Audit Amendments of 1996. OMB Circular A-133 was issued pursuant to the Single Audit Act of 1984, P.L. 98-502, and the Single Audit Act Amendments of 1996, P.L. 104-156. It sets forth standards for obtaining consistency and uniformity among Federal agencies for the audit of States, local governments, and non-profit organization expending Federal awards. This Circular rescinds Circular A-128, "Audits of State and Local Governments", issued April 12, 1985, and supersedes the prior Circular A-133, "Audits of Institutions of Higher Education and Other Non-Profit Institutions".

B. Who Will and Who Will Not be Subject to the Provisions of the Single Audit Act Amendments of 1996 and OMB Circular A-133

All local governments that expend \$300,000 or more of federal awards during the local government's fiscal year must conduct a single audit of all federal funds.

All local governments that expend less than \$300,000 of Federal awards during the local government's fiscal year will **NOT** be required to conduct a single audit, nor will they be required to conduct a financial or financial and compliance audit of the CDBG grant programs. The governments are still required to keep adequate records as mandated in A-102 Attachment C in order that the State or Federal government can audit any of these programs if it so chooses. Complete the following verification form after the completion of your fiscal period and submit it to Nellie Goulette, DECD, 59 State House Station, Augusta, ME 04333-0059.

C. Effective Date

The Act covers the local government's first fiscal year that begins after June 30, 1996.

D. Timing of the Audit

A single audit is to be performed annually. The audit reporting package and data collection form (described later in this document) is to be completed and submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit. The complete audit reporting package and data collection form should be submitted to DECD.

E. Scope of the Audit

The audit shall be made by an independent auditor in accordance with generally accepted auditing and Government Auditing Standards (Yellowbook). The audit shall encompass the entirety of the financial operations of the government. The audit must determine and report whether the financial statements present fairly the government's financial operations and if they are in accordance with generally accepted accounting principles.

- 1) The auditor shall determine whether the financial statements of the auditee are presented fairly in all material aspects in conformity with generally accepted accounting principles. The auditor shall also determine whether the schedule of expenditures of federal awards is presently fairly in all material respects in relation to the auditee's financial statements taken as a whole.
- 2) The audit must review internal controls of the government to assure that it is managing federal assistance in compliance with federal laws and regulations.
- 3) Each CDBG contract audited must be tested for compliance with Federal laws and regulations.

F. Recission and Supersession OMB Circular A-133 rescinds Circular A-128 "Audits of State and Local Governments", and supersedes the prior Circular A-133 "Audits of Institutions of Higher Education and Other Non-Profit Institutions.

G. Audit Documents

- 1) Mandated documents an auditor must use as guidelines to auditing federal monies are:

- A.** State of Maine CDBG Financial Handbook;
- B.** Government Auditing Standards (Yellow Book);
- C.** Compliance Supplement for Single Audits of State & Local Governments, issued by OMB; OMB Circular A-133 and OMB Circular A-87.

- 2.) The auditor may use the following as a compliance guide:

The Industry Audit Guide *Audits of State and Local Governments* issued by the AICPA.

Relation to Other Audit Requirements

Audits conducted in accordance with the Single Audit Amendments of 1996 will be in lieu of any financial or financial and compliance audit requirements of an individual federal assistance program.

The State shall conduct any additional audits which are necessary to carry out its responsibilities under Federal law or regulation. The State of Maine is requiring, but is not limited to, two specific additional requirements:

1. Each contract with the State be reported in the audit, not lumped into one category of CDBG funds.
2. Each contract, regardless of the total receipt for that fiscal year, be tested for compliance.

DATA COLLECTION FORM

The auditee shall submit a data collection form which states whether the audit was completed in accordance with OMB Circular A-133 and provides information about the auditee, its Federal programs, and the results of the audit.

The data collection form shall include the following data elements:

- (1) The type of report the auditor issued on the financial statements of the auditee (i.e., unqualified opinion, qualified opinion, adverse opinion, or disclaimer of opinion).
- (2) Where applicable, a statement that reportable conditions in internal control were disclosed by the audit of the financial statements and whether any such conditions were material weaknesses.
- (3) A statement as to whether the audit disclosed any noncompliance which is material to the financial statements of the auditee.
- (4) Where applicable, a statement that reportable conditions in internal control over major programs were disclosed by the audit and whether any such conditions were material weaknesses.
- (5) The type of report the auditor issued on compliance for major programs (i.e., unqualified opinion, qualified opinion, adverse opinion, or disclaimer of opinion).
- (6) A list of the Federal awarding agencies which will receive a copy of the reporting package pursuant to Subsection 320(d)(2) of OMB Circular A-133.
- (7) A yes or no statement as to whether the auditee qualified as a low-risk auditee under Subsection 530 of OMB Circular A-133.
- (8) The dollar threshold used to distinguish between Type A and Type B programs as defined in Subsection 520(b) of OMB Circular A-133.
- (9) The Catalog of Federal Domestic Assistance (CFDA) number for each Federal program, as applicable.
- (10) The name of each Federal program and identification of each major program.
- (11) The amount of expenditures in the schedule of expenditures of Federal awards associated with each Federal program.
- (12) For each Federal program, a yes or no statement as to whether there are audit findings in each of the following types of compliance requirements and the total amount of any questioned costs:
 - (A) Activities allowed or unallowed;
 - (B) Allowable costs/costs principles;
 - (C) Cash management;
 - (D) Davis-Bacon Act;
 - (E) Eligibility;
 - (F) Equipment and real property management;

- (G) Matching, level of effort, earmarking;
 - (H) Period of availability of Federal funds;
 - (I) Procurement and suspension and debarment;
 - (J) Program income;
 - (K) Real property acquisition and relocation assistance;
 - (L) Reporting;
 - (M) Subrecipient monitoring;
 - (N) Special tests and provisions.
- (13) Auditee Name, Employer Identification Number, Name and Title of Certifying Official, Telephone Number, Signature, and Date.
 - (14) Auditor Name, Name and Title of Contact Person, Auditor Address, Auditor Telephone Number, Signature, and Date.
 - (15) Whether the auditee has either a cognizant or oversight agency for audit.
 - (16) The name of the cognizant agency for audit determined in accordance with Subsection 400(a) and Subsection 400(b) of OMB Circular A-133.

AUDIT COSTS

The costs of audits made in accordance with the provisions of OMB Circular A-133 are allowable charges under your CDBG contract.

A subrecipient (grantee) shall not charge the following under its contract:

The cost of any audit under the Single Audit Act Amendments of 1996 not conducted in accordance with OMB Circular A-133.

- 1) The cost of any audit which has Federal awards expended of less than \$300,000 per year and is thereby exempted under Subsection 200(d) from having an audit conducted under this part.
- 2) Fraud and abuse audits, whether mandated by the State or federal government, is an ineligible federal cost.

The percentage of costs charged to the CDBG contract for a single audit shall be the lesser of \$750 or the % that CDBG funds expended represent of total funds expended by the grantee during the fiscal year.

AUDIT FOLLOW-UP PROCEDURES

Introduction

Audit follow-up is the action taken by the State of Maine in response to an audit report concerning grants awarded. It normally consists of three elements:

(1) acceptance of the audit as to whether it meets the Audit Guidelines presented in the Audit Procedure Section of this handbook; (2) resolution, which is the decision to agree to the auditor's findings and recommendation, in whole or in part, and to act accordingly, or to reject the findings and recommendations; and (3) the action(s) that carry out the auditor's recommendation.

Audit follow-up is a logical extension of the audit function. Federal administering agencies will be held ultimately responsible for proper resolution and follow-up of findings bearing on Federal requirements determined during state audit of block grant funds. However, as with the conduct of the audit, follow-up remains primarily a state responsibility, and follow-up by a Federal agency should build upon actions already taken by the State. This means that the State will maintain follow-up processes for audits performed at both the State and sub-recipient levels.

Follow-up of Grantee Audits

For audits performed at the grantee level, the Department of Economic and Community Development (DECD) will review the audit reports, identify questioned costs and other audit findings and recommendations, and decide whether to sustain the findings. In instances where the State sustains the questioned costs, the State will account for them as a receivable and pursue recovery, or take other appropriate follow-up action. In other instances, the State will review the audit report with the audited grantee and/or the auditor and decide not to sustain the costs. In any case, written response will be forwarded to the grantee indicating receipt of the audit and if there is need of any audit resolution. Resolution of audit findings should be within six months after receipt of the audit report. Corrective action should proceed as rapidly as possible.

The responsibilities discussed above are not intended to limit or preclude any procedures or responsibilities deemed appropriate for the audit of the State's disbursement of funds to sub-recipients.

Audit Follow-up at the Federal Level

The Federal agency's follow-up responsibility will be fulfilled primarily by reviewing and considering the acceptability and timeliness of the State's follow-up decisions and the adequacy of actions taken, with particular attention paid to costs questioned by an independent auditor that are not sustained by the State. The availability of audit resolution and follow-up information will facilitate such reviews (and possible subsequent reviews by the General Accounting Office). Useful information would include the specific audit findings and recommendations and their disposition, the reasons for not sustaining questioned costs, and patterns or trends in audit findings and resulting State actions. It also may be useful to reconcile this information to the audit reports in which questioned costs are reported.

The Federal agencies (including the assigned Federal cognizant audit agency for audits of block grant funds conducted as part of an organizationwide audit) will fulfill their audit resolution and follow-up responsibilities by adhering to the requirements of OMB Circular A-50, "Audit Follow-up". Circular A-50 would also govern the Federal agencies' actions in those instances when the Federal agencies or their contractors audit a block grant directly.

Resolving Findings and Grant Closeout

Any receipt of audit with findings must have resolution of the noted finding prior to issuance of a conditional or final certificate of completion (reference Closeout Procedures section of the handbook).

If a finding is indicated in the audit, and the audit report contains the grantee's response to the finding, then the State will use that response to determine the action to be taken. If the report does not contain the grantee's response, then DECD will formally request a written response before making a determination of action to be taken. The finding and the grantee's response will be assessed. The grantee then will be informed as to whether or not the response satisfies each finding. If the grantee's explanation is sufficient, then the audit process ends. If not, then the State may direct you to take corrective action which may include reimbursement to the State for ineligible expenditures. Resolution of findings should be coordinated through the Department of Economic and Community Development. Prompt resolution of findings is extremely important since the audit report affects the funding of future CDBG programs. If no findings occur, immediate response in writing will be forwarded from the State to your office verifying completion of the grant and approval of the audit. If findings occurred, a formal approval/completion letter will not be forwarded until the audit is resolved. The grant is considered open until the audit is resolved. An unresolved audit may result in denial of any further grants from the State for community development funds.